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UNIFIED APPROACH TO DEVELOPMENT ANALYSIS AND PLANNING

CASE STUDY: CHILE

by

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PREFACE

The United Nations Research Institute for Social Development, the United Nations Social Development Division and the United Nations Economic Commission for Latin America are jointly conducting a study on the "unified approach to development analysis and planning", in accordance with Economic and Social Council Resolution 1494 (XLVIII) and General Assembly Resolution 2681 (XXV). As part of the research for this project, a series of country case studies were commissioned, with the financial support of the Canadian International Development Research Centre.

The present study of Chile has been undertaken by Mr. René Zavaleta Mercado of the Chilean Officina de Planificación. It provides an historical background of the Chilean economy and an analysis of the structural changes which are part of the strategy of development recently implemented in Chile.

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INTRODUCTION

1.1. One of the most obvious obstacles to the execution of an effective economic development policy in a backward country is the inadequacy of its institutions, and in particular the poor organization or unsuitability of its State machinery. How, in fact, does one go about modernizing an administrative machine which is based on obsolete power structures or which has had tacked on to it facets of the political institutions existing in economically developed countries? An under-developed State can evolve only a weak economic policy and is, of necessity, subject to external influences, with no possibility of turning them to its advantage. It is dependent on a world whose influence or interference it is not always able to control.

This is a truly classic vicious circle: the absence of a forceful economic development policy prevents modernization of the State, and the latter's inefficiency prevents the formulation of a genuine economic development policy. The experience of certain political alliances which have failed in the exercise of power, and also the many attempts at development assistance or, in other words, the vertical insertion of economic expertise (although several other factors operate in this process) show that, in these countries, even when what needs to be done is known, the necessary institutional and State machinery is lacking. This is a general problem in connexion with the establishment of a State in colonies, former colonies and semi-colonies, a subject which, although not the topic of the present study, has a constant bearing on it.

At the same time, however, a widely recognized difficulty in studying under-developed countries is their diversity. In economic terms backwardness may be said to represent heterogeneity and development homogeneity. This is a well documented fact. There are under-developed countries which are politically stable, although most of them are not. They may remain under-developed even though certain indicators (in such areas as food and health) may be typical of the developed countries, and it has already been demonstrated that industrialization can actually take place within an under-developed economy (dependent industrialization). In general, therefore, every under-developed country may be said to constitute a separate case. The typical under-developed country is something only rarely to be found.

1.2. It is essential to keep this background constantly in mind in carrying out a general (and therefore superficial) analysis of the economic and social development of Chile. This country's experiment in economic development based on Marxist or leftist principles is the most important one carried out in Latin America since Cuba. The methods which it is using are, moreover, so different from the Cuban methods - in their historical background, in the political power which influences the economic policy, in the degree of concentration of functions in the State and in the role of the population - that one case provides insufficient basis for an assessment of the other. Since it is intended that the Chilean pattern of development should be put into effect within the context of classic democratic principles (democratic-bourgeois or liberal), it is an experiment which cannot fail to be instructive at least for a certain number of countries with similar backgrounds and as one approach to the building of socialism.

1.3. The problems currently posed by the recent Chilean experience are already extremely revealing. This experience has shown that, in an under-developed country, the machinery of State may be relatively modern while the economic structure remains under-developed. Chile is therefore an exception, because there are few under-developed countries with a similar administrative and political structure. Its character is in fact consistent with the essential diversity of the under-developed world.

Undoubtedly, the contradictions inherent in the economic infrastructure have made it possible for a leftist Government to exist in Chile. One has only to imagine what it would have cost to centralize economic resources in the hands of the State, as has been achieved as a result of the latter's nationalizations and take-overs, if the economy had not previously been monopolistic. The leftist leaders in the Government are now seeking to ensure that this development (the change in the legal and political superstructure) will affect and change the economic base to such an extent that the predominant means of production and the type of social structure existing in Chile will themselves be changed.

This is not always an easy task, firstly because under the Government's plan it is intended that the political superstructure should affect the economic base before having resolved its own problems and internal conflicts. Because of the powerful structure of the Chilean State, the Allende Government has to act within the limits of legality. The Government itself, the groups making up the Unidad Popular coalition and all those involved in this process vigorously maintain that they do not intend to exceed these limits. But legality, in this case, means adherence to the existing form of State and, in this connexion, one cannot help wondering how long a typically democratic-bourgeois instrument can be used without risk of stagnation. The transformation of a particular type of State from within, while duly observing its legality (i.e. its method of reproducing itself in terms of political power), is the aim of the process now taking place in Chile. This has not been the case with other socialist processes. In those cases a new State was created by social forces which from the outset disavowed the previously existing legality, although, obviously, the internal disavowal of that legality was no reason why it should not be used externally. The new State, as a de facto institution, would co-exist for a short time with the earlier State (the dual-power phase) and would eventually abolish it. This is not the case with Chile, where the characteristics of the earlier State will be asserted to the greatest possible extent with the result that that State will eventually be abolished. It may be said that Allende's aim is nothing more than to assert the characteristics of the democratic-bourgeois Chilean State to the greatest possible extent until such time as the quantitative change becomes a change in quality.

1.5. One of the paradoxical features of the Chilean situation is that not only is the State more advanced than its economic structure but the Government itself usually leads the masses and is only occasionally in their wake. Most of the important economic measures, for example, were not directly the result of popular pressure. The decisions to nationalize copper and establish the whole area of State ownership were taken at the government level. The masses would probably have even been prepared to accept nationalization on less drastic terms. Only in specific cases, such as the problem of land in certain areas of the country, does social pressure appear to go beyond government plans. Spontaneity, however, is a concept which is practically non-existent in the political repertoire of the Chilean people. Generally speaking, it may be said that within the Unidad Popular coalition there is an awareness that the main problem in the introduction of socialism is the limited degree of mobilization of the masses, their lack of spontaneity and the small pressure for participation. How, indeed, does one explain the fact that the nationalization of copper, which was perhaps the most important act of nationalization in Latin America since Mexico nationalized its oil resources, aroused the people to such a limited extent?

A possible explanation is that this phenomenon is related to the traditional habits of the Chilean people; in other words, the long tradition of institutionality has not only run counter to the interests of the people but has also developed within the people. Since political change has always occurred in Chile by peaceful means, through elections, large sectors of society believe that politics are something which is practised at elections, that politics exist when representatives are elected. At other times, there would appear to be a tendency to respect the decisions of the Government, which has the benefit of the undeniable prestige of more than a hundred years of authority, with no practical action taken either against it or in support of it. The method of establishing political power is firmly rooted in the permanent nature of mass organizations. Consequently, to encourage or urge them to participate in politics in any continuing fashion is relatively difficult and runs counter to tradition.

1.6. These general observations serve as a useful introduction to understanding the way in which a theory of economic and social development, such as is taking place in Chile at an impressive rate, is being put into practice. This theory is economic in nature and is being put into practice on an experimental basis as a result of the advent to power of the Unidad Popular coalition. It also represents, however, the successive continuation, negation and readjustment of earlier patterns and schemes in which other theories of Chilean economic development predominated. The experience of Chile is, in this respect, enviable because it cannot be said that economic affairs have been managed chaotically, in either the recent or the more distant past (during the past 30 to 40 years). It is possible to see in it, to some extent, both the success and the failure of different economic theories. It is also possible, as a result of successful statistical work, to record many of their practical results. The evaluation of economic development in Chile should have been the subject of a longer study, for which more time should have been available. This study nevertheless contains a preliminary and more or less comprehensive outline of the subject.

The historical background

2.1. As a result of the Pacific War (1879-1883) and the development of, first, nitrate and, later, copper resources, which began at the beginning of this century, Chile experienced a remarkable expansion of its economic capacity and thus succeeded in accumulating a relatively substantial economic surplus. This growth resulted in the establishment of new urban-type oligarchic sectors which, after the consideration of a number of political alternatives, subsequently allied themselves with the traditional oligarchic sector of the landowners. The landowning oligarchy already maintained relations with external markets through its exports. In conjunction with, and as a counterpart to, this oligarchy, British interests intervened in the development of nitrate and United States interests later intervened in the case of copper.

The expansion achieved as a result of the above-mentioned surpluses and the crisis of 1930 (i.e. the various policies which caused that crisis) may be said to be the two events which decisively influenced the character of the modern Chilean State. The sudden expansion made Chile richer than most Latin American countries, while the 1930 crisis was the starting-point for its industrialization and for the resulting modernization of its society. This would in principle appear to confirm the theory that crises in the economically developed countries usually generate progress in the developing countries.

Mining the primary exporting sector had a direct quantitative effect because it created additional resources and surpluses on a scale which had never previously been equalled. Qualitatively speaking, on the other hand, it changed Chilean society because it paved the way for the establishment of the country's urban infrastructure, the emergence of a relatively large proletariat, and even the beginnings of industrialization. Until 1930 the mining sector produced more than one-third of the country's national income. Despite all these developments, the traditional pattern of society was strong enough to survive in modified form because the economic and social sector of the mining industry functioned as a virtually autonomous compartment or enclave. The other sectors of production consolidated their position in various ways within the traditional structure and were not seriously affected by the modern mining industry, which was concerned only with its own market.

2.2. This picture was changed substantially by the crisis which occurred in Chile in the 1930s, or rather, by the series of responses to that crisis. It was because of this that "the period between 1930 and 1950 was one of virtually obligatory industrialization and import substitution" 1/. The rhythm, pattern and scope of the import policy was drastically affected. The virtually complete paralysis of the modern mining enclave could not fail to have consequences. World demand for Chilean products declined and this inevitably led to a drastic reduction in foreign trade. The decline in the country's purchasing capacity necessarily led to the establishment of an exchange control policy. In a series of causes and effects which virtually constituted a spontaneous economic policy, exchange control in turn generated a kind of de facto protectionism, which no one regarded as an economic policy but which gave rise to and hastened a process of internal industrialization for which Chile was sufficiently prepared.

The next phase was one of substantial economic development, albeit within the context of modest economic growth. The cumulative rate of increase of Chile's gross domestic product was only about 1.3 per cent between 1930 and 1960, in relation to the average for the period 1925-1929. This figure even contains a favourable bias since it comprises the figures for the period of the Second World War, which were higher as a result of the obvious increase in mineral exports. During the same period, imports were more difficult because the world market could not provide the same quantities of raw materials for domestic industry, or machinery or spare parts, as in normal times. During those 30 years, however, Chile's industry grew by some 354 per cent and the industrial production index increased more than fourfold, while the production of goods increased by approximately 157 per cent and of services by approximately 187 per cent. Manufacturing industry increased its participation in the total product from approximately 15 to 26 per cent. The mining industry, on the other hand, declined in importance: after accounting for 12 per cent of the total product, by 1960 it accounted for only 5 per cent. It had grown by only about 9 per cent in relation to the 1925-1929 average. These figures indicate that a modest economic growth was accompanied by changes in the pattern of production which were perhaps the most important developments until the advent of the Unidad Popular Government in 1970.

The whole economy was consciously geared to the effort of import substitution, in a process which, although it has demonstrated its inherent limitations, is of undeniable usefulness in the management of indigenous resources. A few figures may give some idea of the extent of this process. It is known, for example, that even if there had been no attempt to do more than maintain the 1925-1929 levels, it would have been necessary during the period 1954-1956 to import approximately $800 million worth more goods than were actually imported. It is also known that in order to make such imports possible, the country would have had at least to double its export capacity.

2.3. In a country which was heavily dependent on a sector tied to the world market, and whose normal life was dependent on the maintenance of a steady rate of exports, a decline in international reserves and its immediate counterpart, a massive rise in unemployment, created a social climate in which the introduction of, first, protectionist measures and, subsequently, a protectionist approach was accepted politically. The Government secured control of trade, imposed exchange control, prohibited the import of goods regarded as non-essential, steeply devalued the currency and established a restrictive pattern of customs tariffs. The subsidization of the development of gold deposits and other public works were further elements of this crisis policy. The implementation of this policy led to a salutary release or breaking-away of the internal Chilean market from world markets, and made possible the utilization of existing capacity and its subsequent expansion.

This "necessary protectionism" was undoubtedly introduced as a result of a catastrophic situation. Had there not been this external influence, the political forces might perhaps not yet have been able to consider or accept a conscious policy of controlling the economy. Chile, however, is a country which reacts reasonably in critical situations. When its agricultural exports declined during the last third of the nineteenth century, it sought to establish, through development of its nitrate resources (of which the Pacific War was only a consequence) the basis for a certain economic revival. Protectionism was imposed as a result of the 1930 crisis.

The early emergence of planning in Chile (although the conditions in which real economic planning can exist will be discussed at greater length later) is related to the existence of the necessary protectionism imposed in 1930.

2.4. That experiment in protectionism led to import substitution, particularly in the light industry sector. When, however, in 1939, the Government of Aguirre Cerda 2/ set up by law the Corporación de Fomento de la Producción (CORFO) (Corporation for the Development of Production), and authorized the latter's Board to draw up plans for an expansion of production, it did so with the object of nationalizing the management of the economy. Since this was already a systematic and deliberate effort, it can be said that this is a sphere in which Chile was in advance of the other Latin American countries.

The Government of Aguirre Cerda had to contend with three factors: first, the protectionism which had been practised before it came to power, which was the result of the 1930 crisis; secondly, the earthquake of 1938, which devastated the central and southern regions where most of the population and economic activities of Chile are concentrated; and, lastly, the outbreak of the Second World War. Copper production rose, but copper prices were reduced as a result of an agreement between Chile and the United States. These lower prices, known as "democratic" prices, are said to have reduced Chile's earnings by some $500 million. Naturally, the country's imports of manufactures also fell. "Between 1940 and 1945, the national income increased by some 33 per cent and the per capita income by 22 per cent. But the value added by the industrial sector rose between 1941 and 1945 alone by more than 100 per cent, a striking increase, particularly in the metal-working industries, due to the greater popular demand caused by the rise in incomes. The value added in the various industrial sectors increased as follows between 1940 and 1945: consumer goods 68 per cent, intermediate goods 98 per cent and metal-working industries 232 per cent." 3/

A feature of this rapid industrial development was that it was based mainly on public sector investment. Fixed capital investment as a percentage of the gross national product range from 11 per cent in 1940 to 8.6 per cent in 1945. The Development Corporation (CORFO) itself established various industries in the chemical, textile and engineering sectors, such as MADEMSA (1940), SIAM DI TELLA (1941), INMAR (1941), MADECO (1944), INSA and others. 4/ It was the declared policy of CORFO, which was thus already acting directly as the organizer of Chilean economic development, "to assume the initial risks of the establishment of enterprises with the intention of transferring them later to the private sector, when these risks have decreased". 5/ In this way, half of the enterprises set up in this and the following periods by CORFO were transferred to the private sector, a quarter went out of existence and the other quarter remained in its hands. The State economic development agency served mainly to give impetus and support to the expansion of the private enterprise sector.

It is considered that, apart from this role of stimulator of development and direct establishment of industries by the State, the labour-oriented character of the Popular Front Government was somewhat audacious at that time. The available statistics show that industrial growth in Chile in this phase did not benefit the agricultural workers, whose real wages decreased from the level of 100 in 1940 (base year) to 82 in 1942 and 89 in 1945. In industry itself, the relative share of wages, pay and family allowances in the total expenditure (or revenue) fell from 52 per cent in 1940 to 44 per cent in 1945, while the payment to other factors rose from 48 per cent to 56 per cent. In the economy taken as a whole, workers and employees who in 1940 received 44.1 per cent of the national income, received only 42.6 per cent in 1945. But real wages in industry rose by between 10 and 20 per cent. This means that the entrepreneurs still benefited financially more than the industrial workers themselves.

This emphasis on industrialization and the strengthening of the industrial proletarian sector through income redistribution and the establishment of CORFO constituted a new economic factor in Chile. Thus a new concept of economic development, a concept which at first had merely been outlined, became established, with the State in the role of protagonist. These facts show the basi tendencies of Aguiree Cerda's Government, which is rightly considered the point at which the traditional political power of the Chilean oligarchy began to be broken. Chile increased the face of its industrialization and its programmes in the field of public health (Allende was the Minister of Health at that time) and education were successful and had lasting effects. The figures quoted above show, however, that, basically, there was little change in the power relationships within the country's social structure. The industrialization of Chile, without any considerable change in the position of the classes with respect to the distribution of power, constituted a situation in which Aguirre Cerda favoured the entrepreneurs and the proletariat simultaneously, while modernizing the country as a whole.

2.5. CORFO, which is the nucleus from which the Chilean system of economic planning is being built, from the outset encountered a number of obstacles in attempting to draw up its "general plan for the development of national production". The State did not have the basic economic data which it required, no industrial or agricultural censuses had been taken, the statistics were neither appropriate nor adequate and insufficient consideration had been paid to the extent of the country's natural resources.

CORFO had to fill that gap and this was perhaps its main task as initiator. It was CORFO which published the first Economic Geography of Chile and carried out the first scientifically controlled economic research projects: studies of the national income and the national accounting system. However, since the process of import substitution had already begun, it was obviously essential to consider precisely what were the country's needs for that purpose. That process required raw materials, sources of fuel, metals, energy, transport, financial services, etc. One of the sectors in which such economic requirements were greatest was that related to certain basic industrial inputs, for instance steel, fuel and power. The World War had clearly shown the extent to which Chilean industrialization was dependent on foreign inputs in those branches. CORFO was useful for the establishment of Chile's basic industries, although, again, it is obvious that this met a need of the private sector.

The basic industries were established as a consequence of the needs of private capital and their establishment in no way conflicted with the interests of private capital.

This last assertion is so obvious (that the private sectors not only did not oppose the establishment of basic State industries but favoured it because they were going to use them themselves at a later stage) but it was during the administration of González Videla, 6/ politically an ultra-conservative, that CORFO experienced its greatest successes. Instead of encouraging the establishment of enterprises producing finished products, CORFO then concentrated on the establishment of enterprises producing capital goods. Fixed capital investment increased from 9 per cent of the gross domestic product in 1945 to 12 per cent in 1946 and varied between 11 and 13 per cent during the following years, up to 1952. 7/ It was during this period that the State enterprises producing electricity (ENDESA, 1945), steel (CAP, 1946), petroleum (ENAP, 1950), sugar (IANSA) and others were set up. All these enterprises operated as subsidiaries of CORFO and the process of establishing basic industries, by that technique, continued until about 1955. It is also worth mentioning that the enterprises set up in González Videla's time continued to exist as State-owned or semi-State enterprises, contrary to what happened with the enterprises established in Aguirre Cerda's time. Through them the State invested substantially in the production of petroleum, steel, electricity, etc., which thus became cheap and subsidized inputs for the development of private industries.

2.6. As was stated earlier, CORFO (which until the establishment of ODEPLAN, during Frei's administration, was the real planning body) in its early years drew up only sectoral plans. The first (and most important) was the Electrification Plan, based on research by the Chilean Engineering Institute. The position was similar with regard to the steel and petroleum projects. Among the earlier research projects the most important were those relating to the national income, gross production, national consumption and investment, and the surveys of natural resources. In 1951, CORFO set up its Planning and Research Department. The first organized plan prepared by that Department related to the development of agriculture and transport and also included programmes in the energy and fuel sector; this plan was completed about 1954. It was only in 1960 that the first National Economic Development Programme, covering a 10-year period, was launched.

A process of industrialization such as has taken place in Chile, with the consequent increases in the utilization of inputs, with considerable changes in the composition of the social classes, accompanied by a striking growth of urbanization, could not occur without unusual conflicts and tensions in the overall economy. This state of conflict became obvious in the inflationary crisis of 1953-1955. In 1954, the level of inflation was more than 70 per cent and, as a result, the years which followed were devoted to an all-out fight against inflation. There was a balance-of-payments crisis at the end of the Korean war and in 1955 Chile experienced the greatest inflation in its history (88 per cent, according to official statistics for that year).

The following figures give some idea of the proportions of that crisis. As compared with 1952, the major mining concerns' profits had fallen by 23 per cent, foreign exchange earnings by 21 per cent, the country's capacity to import by 20 per cent and its imports by 7 per cent. The Klein-Saks mission was brought in to fight the inflation. Its stabilization policy succeeded in reducing the inflation to 38 per cent in 1956, 17 per cent in 1957, 32 per cent in 1958 and 13 per cent in 1959. 7B/ It reduced the major copper mines' taxes by some 50 per cent. Such successes, if they can be regarded as such, had to be paid for, inter alia, by a decline in per capita industrial production. The growth rate of industry between 1953 and 1958 was only 7 per cent. There was an absolute decline of 1 per cent in the production of foodstuffs, of 5 per cent in tobacco and 29 per cent in furniture and accessories.

2.7. The 1960s were an important phase in the history of Chile's economic development because during that decade, through two political plans, the Chilean entrepreneurial bourgeoisie made the greatest effort to introduce changes in the existing system but on a scale permitting traditional capitalist policies to be pursued.

During this period industrial stagnation continued and the possibilities of import substitution were virtually exhausted, while the external debt became enormous (increasing from $598 million in 1960 to $3,000 million in 1970) and large amounts of foreign capital were invested in the country ($900 million between 1960 and 1969), representing 11.3 per cent of the gross domestic investment during the period. Apart from the considerable foreign aid which it received, Chile benefited during this period from the highest prices in the history of the country for its main product : copper.

During the presidency of Jorge Alessandri (1958-1964) CORFO continued to withdraw from its industry-establishing activities (which had begun in 1950 with its introduction of industrial-scale cultivation of sugar beet to replace sugar imports) and concentrated on the development of mining, in the north, and fisheries. CORFO became a kind of financing organization which confined its activities almost exclusively to promoting, with its financial support, private and semi-State enterprises.

Alessandri thus introduced an anti-State economic policy, of a liberal type. ircumstances, particularly external circumstances (it was the beginning of the nnedy policy), nevertheless forced him to accept the National Economic Development rogramme (1961-1970) which had been prepared earlier by CORFO. During this period agnation in the process of industrialization based on import substitution became

readily apparent. Each new line of substitution had until then attracted investors who sought a market guaranteed by State protection, but, once a certain level of consumption (that made possible by the substitution) was reached, the growth of demand, logically, became more and more limited. It was this development that was responsible for the existence of a relatively large unutilized installed capacity which was to be activated later by the Allende administration. However, account must also be taken of a less obvious fact, namely that the replacement of obsolete plant by new and more modern machinery meant that there were fewer employment opportunities available. Industrialization brings with it, however, a requirement for industrial inputs and imported capital goods. Since exports were increasing only slowly or stagnating, while industry was making new demands for imports of this type, it was no longer possible to save foreign exchange, which had to be spent on capital goods. For some time, external financing counterbalanced this maladjustment or disequilibrium but it led to further balance-of-payments difficulties.

2.8. There were considerable differences between the Frei régime (1964-1970) and that of Alessandri. These can be summarized as follows:

(a) Alessandri facilitated the import of foreign goods, devoting a large part of public expenditure to imports (13 per cent of imports were for the public sector in 1965-1966 and 20 per cent in 1967-1968). Frei, on the other hand, concentrated on imports of capital goods, petro-chemicals, cellulose and other infrastructural requirements and not on industries producing goods for mass consumption. The Manufactura de Cobre (MADECO) and the Compañía de Acero del Pacífico (CAP) received $51 million in 1967.

(b) Alessandri confirmed and maintained foreign ownership of basic resources. Frei carried out complex and costly operations, such as the so-called Chileanization of copper, in an administration which was supported by North-American investors, with the aim of weakening the arguments in favour of nationalization.

(c) Alessandri continued to import foreign goods which competed with domestic products, although only to the extent that the process of industrialization by substitution referred to earlier permitted. Frei preferred foreign investment as such, even though it competed with the existing national industries. Foreign investment took place in important sectors of industry and denationalized it. Cases of investment replacement (displacement of an earlier national investment by a later foreign investment, in the same field) occurred very frequently and by 1970 one-sixth of all Chilean industry was in the hands of foreign capital.

In the first years of his administration, Frei continued Alessandri's pattern of development based on external indebtedness. The relative economic progress of the last phase of Alessandri's administration continued and accelerated, the rate of increase of the gross domestic product rising from 2 per cent to 3 per cent. Frei rapidly increased State investment in the social field, in housing, for instance, (investment in which increased from 338 million escudos in 1965 to 542 million escudos in 1966), and in education (from 66 million escudos to 139 million escudos in 1966), thus increasing the share of the former in total public investment from 20 per cent to 23 per cent and of the latter from 4 per cent to 6 per cent.

Frei's second three-year period in office was marked by a recession which began abruptly in 1967 with a fall of 1 per cent in the per capita gross domestic product, compared with an increase of 7.6 per cent in 1966, and a fall of 1 per cent in

industrial growth also, compared with an increase of 9 per cent in 1966, which meant that there was also a decline in per capita production in industry. Economic growth was negligible until 1970.

The early rapid increases in investment in the social sector (80 per cent in the case of housing and 110 per cent in the case of education) slowed down from 1967 onwards. On the other hand, investment in the mining sector increased as a result of the policy of Chileanization of the copper industry. 8/ Clearly, at the time, the Christian Democratic Government considered that the solution to the problem of an industrial process which already required increasing quantities of imported inputs for which it was not producing substitutes lay in a dramatic expansion of copper production. Frei's policy was mainly directed to this end and this was the origin of the Chilean State's partnership with private enterprises.

The impressive rise in the price of copper and North-American and European loans were factors which favoured the Christian-Democratic régime and its economic policy. The loans enabled it to refinance the enormous external debt inherited from Alessandri. The partnership with the major copper mining firms (the Chileanization) caused the tax revenue to more than double between 1964 and 1967, although it fell off during 1967 and only increased slowly afterwards. Foreign investment increased from $62 million in 1964 to $142 million in 1968, the copper mines' share in this was quite substantial, rising from $14 million in 1964 to $31 million.

There is no doubt that the Christian-Democratic administration made efforts to diversify Chile's industry. Public investment in that sector tripled between 1965 and 1969, the sector's share in total public investment increasing from 4 per cent to 7 per cent. CORFO itself resumed its industrial operations after a decade of virtual inactivity (Ibañez and Alessandri) and increased its investment in industry.

As far as income distribution was concerned, the share of salaries in the national income rose from 23.2 per cent in 1964 to 27.1 per cent. That of wages, on the other hand, fell from 16.8 per cent in 1964 to 16.3 per cent in 1969. The share of the two combined rose from 40 per cent in 1964 to 43.4 per cent in 1968. Whether this disparity was or was not deliberately brought about, it is undeniable that the régime received more positive support in middle class circles than among the wage earners. Only the agricultural sector recorded a definite absolute and relative increase in wages and a decrease in employers' profits. This reflected the beginning of the agrarian reform programme, under which 1,400 rural properties were expropriated. Another noteworthy feature of the period was the establishment of the National Planning Office (ODEPLAN) with which planning acquired official status in the Government's policy, although a régime having the characteristics of Frei's administration obviously could not be of an experimental nature.

The concentration of the Chilean economy

3.1. The projection over time of the phenomena described has by no means followed a linear progression but is nevertheless creating a certain type of society. That type of society, the result of the application of several, sometimes disparate, economic policies, is the starting point for the execution of the present Government's plans (which are rather heterodox compared with what preceded them) and its economic policy. The concentration of the economy and its dependence not only on world markets but also directly on the economic decision-making centres of the capitalist world are the most patent features of the Chilean system.

Foreign capital became a decisive factor in the development of the economy. From 1960 to 1970, the mining sector, for instance, contributed nearly 10 per cent of the gross domestic product. Of that total, 70 per cent was accounted for by the copper sub-sector and 60 per cent by the major mining companies. Roughly 6 per cent of the gross domestic product was then contributed by those companies. The mining sector provided nearly 100 per cent of Chile's foreign exchange earnings and 14 per cent of the tax revenue, while mining exports constituted 85 per cent of the total exports (copper 70 per cent, iron 9 per cent and nitrate and iodine the remainder).

Until 1966, foreign companies controlled 100 per cent of the major mining operations. From that year onwards their control was reduced (in theory at least) as a result of the agreements concluded by Frei, which were referred to as "nationalization by agreement". By 1967, 17 per cent of the major mines had been nationalized by those means and by 1970 51 per cent. Even after those agreements, however, the companies still retained an essential measure of control of copper production and marketing. 9/

Events followed the same path in the case of iron and nitrate. The only company in the iron sector belonging to the major mining concerns was the Bethlehem Chile Iron Mines Company, but there were substantial United States, Canadian and Japanese interests in medium- and small-scale iron mining. In 1967, the Compañía Anglo-Lautaro controlled 81 per cent of Chile's nitrate production. CORFO entered into association with it and set up SOQVIMICH after negotiations which were even more strongly criticized than the copper agreements. 10/

In Chile, as in several other Latin American countries, foreign investment showed a tendency to shift from the primary to the secondary sectors. In 1968-1969 there was some degree of foreign capital participation in 25.5 per cent of the corporations in the industrial sector (833) and these corporations accounted for 59.5 per cent of the total capital and reserves of the industrial sector.

Considering only the predominant enterprises in the industrial sector (i.e. those whose share of the market was disproportionately large in relation to the total number of enterprises), foreign capital was found to have had an interest in 43.6 per cent of them which held 67.2 per cent of the capital and reserves.

Foreign investment was concentrated in the so-called dynamic industries, such as pulp and paper, rubber, electrical equipment and accessories, metal products, etc. "Chilean industry fell increasingly into foreign hands, particularly the branches which had most influence on the behaviour of the sector as a whole". 11/

Chile's financial dependence was also very marked during the 1960s. Foreign capital inflows in the form of direct investment amounted to $900 million (11.3 per cent of gross domestic investment) against an outflow of $839 million for repatriation of profits and $873 million for depreciation, the net result of capital movements associated with foreign investment being an outflow of $812 million.

Additional net indebtedness over that period rose from $598 million in 1960 to $3,000 million in 1970. According to ODEPLAN, Chile's *per capita* indebtedness amounted to $300. Foreign exchange outgoings under the head of interest on foreign capital amounted to 20 per cent of total current income in 1967. External indebtedness

included services payments commitments during the six-year period 1971-1976 of approximately $1,400 million and of over $566 million in 1971 and 1972 alone.

3.2 As well as becoming increasingly foreign-dominated and dependent, the Chilean economy showed a high degree of monopolistic concentration. Up to 1965, the large estates (of 1,000 hectares or more), which amounted to only 1.3 per cent of all the farms in Chile, owned 72.2 per cent of the agricultural land, and in many cases were 1,000 times larger than the holdings of the small farmers (up to 50 hectares). The small farmers, on the other hand, who accounted for 85.2 per cent of the total number of farms, controlled only 5.8 per cent of the total agricultural land. 12/

Up to the end of 1970 (when Allende assumed the presidency), there had been no basic change in the situation, although the Land Reform Act had begun to be enforced in 1967. Of the 24,434,200 hectares which was the total area of the estates of 500 hectares and over, only 2,869,400 hectares, or a little over 10 per cent, had been expropriated by the end of 1969. 13/

The trend was the same in the industrial sector, where there was a particularly high degree of concentration in the last few years. To take only the industrial enterprises which are public companies, a little over a quarter of them hold more than four-fifths of the total capital and reserves as well as four-fifths of the aggregate assets, and provide slightly more than three-quarters of the fixed working assets 14/. In another study it was pointed out that "in the industrial sector, with 144 enterprises it is possible to control each and all of the sub-sectors" 15/, which means that the concentration of industry occurs in all its sectors and groupings, not one of which is immune from this phenomenon.

As has already been mentioned, the concentration was even more marked in the mining sector. Large-scale mining was conducted by three companies, at Chuquicamata, El Salvador and El Teniente, their output accounting for 78.2 per cent of the total production. Medium-scale mining was in the hands of one State-owned and two foreign companies owning Mantos Blancos and La Disputada at Las Condes, which up to 1969 accounted for 15.8 per cent of copper production. Small-scale mining consisted of 2,000 mines producing only 6 per cent of the total. In iron mining, six companies accounted for 82.7 per cent of the total production in 1970. In coal-mining, one company (Lota-Schwager) accounted for 77.5 per cent of the total production.

This concentration extended to the distribution sector as well. In wholesale trade, for instance, which holds the key position in the sector, 70 large enterprises accounted for more than three-quarters of the total sales and more than half the labour force employed up to 1967. The same survey found that 12 distributing monopolies (i.e. 0.5 per cent of the wholesale companies) controlled 43.2 per cent of total sales in that year, while 64.6 per cent of the companies accounted for only 4.7 per cent of the total wholesale trade.

In retail trade, over a quarter of all sales were made by less than 5 per cent of the companies while the bulk of the sales were made by 100,000 companies. In other words, great proliferation and fragmentation existed side by side with monopolistic concentration in the essential part of the sector's activities.

Chile's banking system consisted of 26 private banks, of which 5 were foreign, and the Banco del Estado. The latter had a fairly large volume of business, ranging from 30 to 40 per cent of total bank transactions, but its profits were clearly less than those of the private banks. The concentration in the sector can be better appreciated from the fact that one of these banks (Banco de Chile) held 27.6 per cent of current deposits, accounted for 28.6 per cent of current investment and obtained 30.9 per cent of the profits. It becomes even clearer if other indicators are taken into account as well. In 1965, for example, 60 shareholders owned 19 per cent of all the shares and 200 shareholders owned 34 per cent, but in 1970 it was calculated that just over 2 per cent of the shareholders held nearly two-thirds of the shares.

In addition to this basic concentration, the same trends are to be found in the destination of credit. In 1969, 1.3 per cent of the debtors were using nearly half the total credit available (45.6 per cent) and 66 debtors (individuals and bodies corporate) obtained more than a quarter of the total (28.6 per cent). At the same time, 62 per cent of the debtors obtained only 8.2 per cent of the total.

The general concentration of the economy was also reflected in the fact that, in the case of the 271 largest public companies out of the 59.4 per cent of enterprises surveyed, the 10 largest shareholders owned 90 to 100 per cent of the shares. In 84.87 per cent of the cases mentioned, the 10 largest shareholders held 50 per cent of the shares.

3.3. It has already been pointed out that, since the nineteenth century, and to an even more marked extent since the beginning of this century, the Chilean State has played an important economic role by collecting the receipts of foreign trade and allocating them among the factors making up the production structure. It has also been seen in the chapter on the historical background how far the State ceased to be a mere intermediary and became an active participant in the production process after the 1930 crisis, and more particularly in the years following the Second World War.

It was in the course of this process that the State became a key instrument in bringing about what is known as the expanded development of the productive structure, i.e. its preservation, orientation and growth. It may be said, in fact that the participation and influence of the State not only failed to slow down the process of concentration and monopolization of the Chilean economy but even paved the way for it.

A study made in 1970 of the impact of the public sector 16/ concluded that the State was responsible for 46.67 per cent of the value added, 40.62 per cent of the employment and 43.9 per cent of the surplus in the Chilean economy, and that its influence was equally decisive in foreign trade and household consumption (the effects on total economic values did not necessarily originate in the public sector). The proportion of local household consumption generated by the State was nearly 40 per cent, which shows the impact of consumption on production and the resulting general level of employment.

The influence of the State is, of course, reflected in its participation in capital formation. An eloquent indicator of the State's role in capital formation is the fact that public investment in 1969 was responsible for 74.8 per cent of gross domestic fixed capital formation, i.e. three-quarters of the total in that

year. This does not mean that the fruits of that investment were State property; on the contrary, a large proportion remained in private hands, which is still clearer evidence of the role assumed by the State. Public investment represented an increasing proportion of gross domestic fixed capital formation. Although in 1961 it was only 46.6 per cent of the total, by 1969 it had risen to 74.8 per cent.

However, if direct public investment is regarded as generating capital that remains in the public sector, while indirect public investment generates capital goods that are transferred to the private sector for investment purposes as credits or capital transfers, the role of the State as agent is plain 17/.

Between 1961 and 1969, indirect public investment increased at an annual cumulative rate of 20 per cent whereas the rate for direct public investment was only 6.3 per cent. It may reasonably be inferred from this uneven development that "the whole dynamic of capital formation derives from the public sector; so much so in fact that the absolute figures for investment originating in the private sector fell in real terms during the period under consideration with the result that more than half the capital formation in that sector was made possible by an economic system which allowed public resources to be pre-empted for private purposes" 18/.

It has also been noted that whereas direct public investment increased by 6.5 per cent between 1961 and 1969, total investment rose by only 3.2 per cent, which indicates that the rate of growth for private investment was even less (0.9 per cent). But if indirect public investment increased at a cumulative annual rate of 20 per cent and private investment at a rate of 0.9 per cent over that period, at least some of the public resources earmarked for purposes of capital formation in the private sector must have been diverted to other uses. It is confidently asserted that "between 1964 and 1967 16.3 per cent of those resources on average were used for other purposes than capital formation" 19/.

The choice of investment sectors throws further light on the trend and aims of State policy. Of the total direct public investment in 1970, 9.7 was in industry and 6.1 per cent in mining. Indirect public investment in those sectors, however, was 21.6 per cent and 20.2 per cent of the total respectively. This indicates that the State preferred to channel resources into private investment rather than become a producer itself.

On the other hand, electricity, gas, water and sanitation received 14.6 per cent and transport, warehousing and communications 21.9 per cent of direct public investment, as compared with 0.7 per cent and 4 per cent, respectively, of indirect public investment. In other words, the sectors towards which direct public investment is channelled are those with the highest requirements per unit of production and their output is sold at subsidized prices as cheap inputs, while resources are made available to the private sector for more directly productive and profitable investment, under a policy of ensuring continuing development of the economy. "The rate of profit in these sectors is several times lower than in the sectors producing goods .... participation in the income from other factor payments - which is used here as an index of capital participation - is less than 25 per cent on average for transport and less than 30 per cent for electricity and gas services, compared with figures of around 50 and 60 per cent in the sectors where private capital predominates" 20/.

Lastly, an important form of State participation in the economic process is the establishment of productive enterprises by the public sector through direct public investment and their subsequent transfer to the private sector once the initial market and other risks have been overcome. This was one of the declared objectives in setting up CORFO as is explained elsewhere in this paper. The best-known case is that of the Compañía de Acero del Pacífico. This company was set up in 1946 by CORFO and by 1966 54.7 per cent of its capital was already privately owned. The same thing happened in the fisheries, metal transforming, food and mining industries.

Indirect co-operation between the State and private companies has taken many different forms. There is, for instance, the well-known case of the Empresa Nacional de Petróleo (ENAP), which delivered liquified gas to private distributing concerns for sale to the public at a higher price, and that of the Empresa de Electricidad (ENDESA), which supplied electric power to the private company CHILECTRA for sale to the consumer.

It should also be remembered that the Chilean State has guaranteed 59 per cent of the external credits granted to the private sector (1968 figure).

3.4. The consequences of such an economic pattern are a regressive income distribution, under-utilization of the economy's installed capacity and under-utilization of manpower, resulting in a low rate of economic growth in a context of financial tensions reflected by persistent inflation.

CORFO pointed out in one of its studies that "for the great majority of the manufacturing sectors, more than 50 per cent of the market is constituted by the 19 per cent of families having the highest incomes. The upper-income groups influence 90.3 per cent of the motor vehicle industry, and 75.5 per cent of demand comes from a small group consisting of 50 per cent of the higher-income families" 21/. This situation compelled the so-called dynamic industries to base themselves on (and aim at) the consumption of the small nucleus enjoying rapid income growth and resulted in what CORFO termed "unnecessary diversification which leads only to poor utilization of installed capacity" 22/.

The disparities in the Chilean economy are also shown by the fact that "about 18 per cent of the labour force is employed in the modern sector where 54 per cent of the total product is generated, while nearly a quarter is employed in "primitive" activities generating less than 4 per cent of the product" 23/. The pattern of income distribution in Chile is the result of this distribution of the labour/productivity ratio and has been responsible for the fundamental distortion of the industrial process itself.

As the income distribution is the reason for (and the result of) a certain type of industry and its growth pattern, it is clear why, between 1960 and 1970, value added in real terms increased by 165 per cent for metal products, 145 per cent for electrical machinery and equipment and 185 per cent for transport machinery and equipment. During the same period, however, the average growth in the industrial sector was 71 per cent, and the branches producing goods for mass consumption grew at appreciably slower rates (foodstuffs 63.7 per cent, textiles 59.3 per cent, footwear and clothing 26.3 per cent and accessories 11.2 per cent) 24/.

The selective expansion of these sectors which, although not intrinsically dynamic, become dynamic in response to the pressure of a certain type of demand, has other consequences as well. For instance, it leads to the use in certain branches of a far more advanced technology which is closer to that of industries in the developed, technology-exporting countries than to the average national level. There is also an anomalous absorption of labour, since the productivity does not by any means increase the number of jobs available. Finally, there is under-utilization of installed capacity.

It is necessary to emphasize once again that regressive income distribution is both the cause and the effect of this distortion which affects the whole economic structure of Chile. In the report referred to, the present Minister for Economic Affairs, Pedro Vuskovic, stated that "half the low-income population groups receive 17 per cent of the total income, which is equivalent to less than a fifth of the income accruing to the higher-income half. The wealthier 5 per cent of the latter half have more than 27 per cent of the income, which means a per capita income almost 38 times that of the poorest 10 per cent; moreover, the wealthiest 1 per cent have 10 per cent of the national income, which means that their average annual income is 69 times that of the 10 per cent in the lowest income group. The average remuneration of the latter is therefore barely half the minimum legal wage of a manual worker" 25/.

It is estimated that the income of 47 per cent of the employed population is less than the minimum legal wage. Of this group, 67.6 per cent are workers, 8.4 per cent employees, 52.9 per cent own-account workers and less than 1 per cent employers. The whole group obtains only 12 per cent of the total income.

The income of 33.6 per cent of the employed population who have 22.1 per cent of the total income is between one and just over two times the basic minimum wage. This group consists of 27.3 per cent workers, 51.6 per cent employees, 40 per cent own-account workers and 8 per cent employers.

At the other extreme are 9,000 persons (just over 0.3 per cent of the population) who receive an average of 46.8 times the basic minimum wage and account for 24.39 per cent of the total income. Of these, 5,600 are employers, 1,800 own-account workers and 1,560 employees in high positions.

In this connexion, ODEPLAN commented on the existence of a lower stratum consisting of the 80.6 per cent of the workers receiving less than 2.2 times the basic minimum wage and said that the disparity between the concentration of income in a small group and the large majority earning less than twice the basic minimum wage meant that Chile's income distribution was defective even in comparison with that of the relatively less developed countries of Latin America.

3.5. There are various reasons for the permanent under-utilization of installed capacity in Chile, but no one would dispute its existence. It is to be found, in fact, in practically all the sectors of production.

In manufacturing industry, for example, average utilization was only 75.64 per cent of installed capacity in 1969 and 75.34 per cent in 1970. In 1970 utilization varied from 55.77 per cent for metal products and 56.69 per cent for petroleum products and coal to 99.40 per cent for clothing and footwear, virtually the only branch in which capacity was fully utilized 26/.

There was a similar although even more serious situation in the agricultural sector, where "compared with a supply of 4.2 million hectares of arable land and 6.9 million hectares of potential pasture, Chilean farmers in 1965 used only 1,537,000 million hectares for annual and perennial crops and 1,057,000 million as artificial pasture over a maximum five-year period; in other words, just over a third (36.6 per cent) of the arable land available was used for annual and perennial crops and 25.1 per cent as artificial pasture" 27/.

It is clearly recognized as anomalous that more than 20 per cent of installed capacity in the industrial sector should lie idle while 30 per cent of the population does not have access to the market for industrial goods.

In Chile, as in all the underdeveloped countries, there is, in addition to under-utilization of capacity, under-utilization of the labour force. ODEPLAN has calculated that in 1970 there were about 260,000 persons officially unemployed, plus 600,000 in marginal occupations and 150,000 who wished to work although they were not regarded as part of the economically active population.

Past trends show that, between 1960 and 1970, official unemployment invariably averaged more than 6 per cent. In 1967, together with equivalent unemployment (under-employment) it amounted to over 15 per cent of the potentially active population. Chile's pattern of unemployment is yet another sign of the distortion of the country's development, and will be discussed later. Meanwhile, it is sufficient to note that, up to 1970, nearly 1.3 million persons (the unemployed and their families) out of a total population of 10 million had no source of personal income whatsoever, and can be said to have formed what is known as an industrial reserve.

Inflation, which is a widely studied phenomenon, was controlled or slowed to some extent first in 1961-1962 (the Alessandri period) and again in 1966 (Frei), but subsequently accelerated to reach 29.3 per cent in 1969 and 34.9 per cent in 1970, thereby helping to accentuate the regressive nature of Chile's income distribution. The basic minimum wage (in escudos at 1965 prices) was 212.9 in 1966, but had sunk to 198.79 by 1969. It was obviously the lower-income groups that bore the brunt of the burden of inflation.

In those conditions, all the various factors enumerated above were reflected in a low economic growth rate, which may be regarded as a quantitative failure of the system. The average per capita growth rate in the 10 years from 1961 to 1971 was 1.9 per cent, divided into three periods: one of 2.4 per cent between 1961 and 1964, one of 3.5 per cent in 1965 and 1966 and one of 0.6 per cent between 1967 and 1970.

The average productivity index for the economy with 1960 as the base year had reached only 113.9 10 years later.

The economic policy of the Unidad Popular coalition

4.1. Against this historical background, and with this type of economic and social structure, a radical attempt to transform Chilean society is being carried out by the Unidad Popular government under Dr. Salvador Allende, who was elected President in 1970 by a narrow margin of votes. Thus the Chilean Left, which includes some of the best organized parties of the continent, came to power at last, after a long struggle.

Although Allende polled less than 40 per cent of the votes, it must be remembered that many of those who voted for Tomic, the Christian Democratic Party candidate, were also in favour of instituting social change in Chile. It is even more important to note that the Unidad Popular electorate voted for a programme which left no room for doubt. The Basic Programme proclaimed, for example, that "the united popular front seeks, as the central objective of its policy, to replace the present economic structure, by putting an end to the power of national and foreign monopolistic capital and of the large landowners, in order to commence the building of socialism"28/.

The aim of destroying the Chilean type of capitalism, (a dependent capitalism) and replacing it by an economic and social structure leading to socialism is clearly spelt out in that manifesto, and at least those who elected Allende voted for that policy, thereby venting their deep feeling of frustration at past experiments, particularly those of Frei and the Christian Democrats. The election of a Marxist government by democratic representative methods was surprising in itself, but even more so when accompanied by a Programme of commitment to a line of action such as that which was subsequently pursued. The new Government's position was made even more clear by the declaration: "Our aim is not only to carry out the structural reforms necessary to change the conditions in which the economy and society operate, but to transform their very quality. It is not our aim to remedy the situation within the limits of the system, but to replace the system"29/.

Such an ambitious aim, however, calls for comprehensive programming in order to co-ordinate the difficult tasks of the immediate future with long-term objectives whose realization may also call for some immediate efforts. In the case of an experiment which has aroused so much world attention, it is natural to speculate on the goals of Chile's long-term economic policy. The Chilean publications do not contain much information on the subject, although they deal extensively with past experience and short-term plans. Nevertheless, always with the idea of building a socialism-oriented economy and society, the Basic Programme of the Popular Unity Coalition defines the objectives of its overall strategy as follows: (1) to resolve the immediate problems of the masses; (2) to guarantee employment for all Chileans of working age, and an adequate level of remuneration; (3) to free Chile from its dependence on foreign capital; (4) to work out a new foreign trade policy; (5) to take steps to achieve monetary stability, and (6) to ensure rapid and decentralized economic growth.

Clearly, not all these objectives are immediately compatible. Elsewhere, action to achieve freedom from or end dependence on foreign capital has retarded the solution of the immediate problems of the masses. Furthermore, at least in the more normal cases, it has not always been possible simultaneously to achieve at one and the same time rapid economic growth and coherent monetary stability. However, as far as its strategical objectives are concerned, the Programme clearly meets the demands for the further development of the popular movement which made the present régime possible, and the need to tackle certain essential problems of Chile's past economic development process.

In a brief summary of the Chilean Government's programme, Mr. Vuskovic, Minister for Economic Affairs, sums up its aims as follows: (1) to restructure the economy in three sectors of ownership (State, private and mixed) by transferring strategic activities from monopolistic control; (2) to effect a redistribution of income; (3) on the basis of (1) and (2) to give a new direction to the country's economic development, leading to a socialist transformation of Chilean society.

The idea is that, if the strategic sectors of the economy are controlled by the State (which would itself assume responsibility for those sectors which developed thanks to Statehelp), an ability to increase demand could be achieved through a progressive redistribution of income, by introducing changes in consumption patterns and giving the State the possibility of planning the economic development of a society that is already centralized (owing, inter alia, to the existence of monopoly practices).

Of course, it is impossible, in this connexion, to draw any sharp theoretical distinction between the short-term and the long-term, for the one continually overlaps the other. The Basic Programme states, for example, that "the country's capacity to produce unnecesary and expensive goods to satisfy the high-income sectors of the population will be switched to the production of cheap, but good quality articles of popular consumption". In the short term, it is obviously possible to increase the supply of consumption goods to meet the vital needs of the people through redistribution of income (by wage and other policies) and mobilization of under-utilized or non-utilized capacities. But, in the long-term, a sustained policy of income redistribution requires the transformation of the very structure of the economy and society.

Ramos draws attention to other consequences of such a policy. Encouragement is given to a certain type of investment, medium or small, which is not capital-intensive as far as technology is concerned and which yield rapid results permitting adjustment to the new patterns of income distribution. These projects "generally have low capital requirements but are very labour-intensive; consequently, a rapid rise in the rate of savings and capital formation ceases to be an essential prerequisite for achieving a higher over-all growth rate", as is pointed out, in the publications of the Planning Office 30/. Also, a policy of this kind clearly implies a switch in consumption patterns towards a more rational balance between individual consumption and collective consumption".

4.2 This is what the Chilean experts refer to as "creating a popular welfare economy". The features of this system are described in the National Economic Plan for the period 1971-1976, drawn up by the Planning Office in co-ordination with the main government departments. This document, which represents a major effort and is the most serious attempt carried out so far in Chile in this field, describes the economic and social goals which Dr. Allende's Government must achieve by the end of its term (1976).

The 1970-76 Plan provides for a 92 per cent increase in building, which by 1976 should account for 5.3 per cent of the national product (compared with 4.2 per cent in 1970) and, in the same period, an increase of 66 per cent in the wood, furniture and paper industries, 52 per cent in the food, beverages, tobacco, textiles, clothing and leather industries, and 57 per cent in the public services, education and health sectors. It provides for a 50 per cent expansion of the transport and electricity infrastructures, and increases of 60 per cent and 47 per cent in the mining industry and agriculture and fisheries, respectively.

The Plan assumes that "a progressive redistribution of income will automatically ease the pressure of demand for non-essential, luxury consumer goods and increase the demand for basic goods and services"31/.

Defining Chile's economy as an "excluding economy" and stating the objective to better building of an "economy with popular participation", the Plan envisages the creation of 988,000 new jobs, which means an increase in the economically active population of 30.7 per cent by 1970 and of 36 per cent by 1976.

Of this total number of new jobs, 402,000 correspond to the natural growth of the labour force. In a second stage, the creation of 119,000 additional new jobs would reduce the 1970 official unemployment rate of 6 per cent to an insignificant 2 per cent or so by 1976. Lastly - and this is perhaps its most interesting aspect - the Plan calls for the creation of 467,000 jobs for women. This would not only advance the cause of womens' liberation enormously, but would also raise the incomes of the lower-income groups. It is planned to increase the proportion of female labour in the economically active population between the ages of 15 and 64 from the present 25 per cent to 40 per cent.

Although such an expansion of employment alone would appear to call for a further redistribution of income, the Chilean Plan also envisages a further increase in the participation of wage-earners in income distribution from the 51 per cent they obtained in 1970 to 60.7 per cent in 1976. On the other hand, the share of landowners and entrepreneurs in the national income would decline from 18.6 per cent to 8.3 per cent by 1976. Under the same policy, while the Government will maintain its overall participation at about 16 per cent, public enterprises would absorb 10.1 per cent in 1976 (as compared with 4.9 per cent in 1970) and the participation of private enterprise would decline from 6.1 per cent in 1970 to 3.2 per cent in 1976. The share of foreign enterprises would drop from 3 per cent to 1.2 per cent by the same date.

To make possible the proposed increases in production, the 1971-1976 Plan envisages increasing the rate of investment from 16.6 per cent in 1970 to 18.2 per cent in 1976, with a net investment of $10.7 million (52 per cent in production sectors, 23 per cent in the physical infrastructure and 25 per cent in the public or social sector. This sector, which in 1970 accounted for 10 per cent of the gross domestic product (GDP) would account for as much as 30 per cent in 1976, requiring the transfer to that sector of some 100 enterprises regarded as monopolistic and formerly in the private sector. The public sector is also the one entrusted with the task of mobilizing the surpluses necessary in order to increase the investment rate and will have to contribute 10.1 per cent of national savings in 1976, compared with 4.9 per cent in 1970.

Chile proposes to increase the overall growth rate of its GDP by about 50 per cent in the period 1971-1976, with a mean annual cumulative rate of 7 per cent, higher than that of any previous period. The mean annual cumulative growth rate of productivity would be around 2.3 per cent, an increase over the figure for the general trend over the period 1960-1969, which was 1.5 per cent.

The Programme of the Unidad Popular coalition referred to the necessity of "expropriating imperialist capital, achieving an ever-greater measure of auto-financing of our activities, laying down operating rules for non-expropriated foreign capital, and achieving greater independence in the technological field", etc. This called for the nationalization of copper, iron, nitrate and other activities which were controlled by foreign capital. Copper, in which vast sums have been invested ($600 million), was to continue under the Plan to be Chile's main export item, and it is estimated that the volume of copper exports will have increased by some 60 per cent by 1976 to provide an income of $1,200 million (on the basis of an estimated price of 50 cents per pound). Chile also proposes to increase its exports of manufactures and agricultural and livestock products from $405 million in 1970 to $598 million by 1976, bringing the total value of its exports in 1976 to $1,798 million.

At the same time, it is planned to increase imports of intermediate inputs and capital goods (for mass consumption) and to reduce the consumption of imported luxury products. In 1976, imports would be approximately of the same value as exports and would comprise 50 per cent intermediate products, 23 per cent capital goods and 27 per cent consumer goods. Imports as a percentage of the GNP would decline from 15.4 in 1970 to 13.6 in 1976.

Another important objective laid down in the 1971-76 Plan, is that creation of an economic development which is not only sustained, but is also territorially decentralized. The geographical concentration of Chile's development and especially of its industrialization was a consequence of the character of the country's fast growth and must be regarded as an unnatural phenomenon in the same way as monopolization, dependence or the regressive distribution of income. It resulted in 54 per cent of the country's urban population and nearly 37 per cent of the total population being concentrated in Santiago in 1970. "In 1967, 45 per cent of the gross domestic product and nearly 58 per cent of the industrial product were generated in Santiago, and 70 per cent of the country's manufacturing industries were located in the central provinces of Valparaiso, Aconcagua, O'Higgins and Santiago"32/. Another indicator of the geographical concentration of Chile's economic development is the fact that, in 1970, 56 per cent of the total deposits in national currency with commercial banks was concentrated in Santiago, as well as 68 per cent of all the country's investment. "Private commercial banks, with headquarters in Santiago, controlled nearly 87 per cent of total investment, the proportion rising to 92 per cent if the Banco del Estado is included"33/.

4.3. In view of these objectives for the six-year period, the Government had to put in hand a short-term plan to reactivate and begin the restructuring of the economy, to start carrying out the policy of income redistribution, and finally, to work out tactics for implementing its global economic policy, tactics which had, of course, to be related to the "need to extend the basis of the popular Government's support"34/, in other words, based on the premise that the Government's political power was no yet consolidated. This last point must be considered later, but meanwhile, it is worth noting that, in a country whose institutions tend to be lasting, it is possible, even for an administration with a limited basis of support, to undertake a bold short-term economic policy without previously consolidating its political position. Here, as explained in the introduction,

the superior development of the Chilean State, as compared with its economic structure, played a part. To put it simply, if the Chilean State had not been efficient as an institutional system of authority, with a capacity doubtless greater than the practical powers of the Unidad Popular coalition (considered separately from the State), it would not have been possible to transform the basis and the functioning of the economy in the manner in which this has been done. It would have been necessary, first, to affect the changes necessary in order to solve the question of political power.

An exponent of the economic policy of Dr. Allende's Government has pointed out that "short-term policy is based on producing a substantial increase in demand, through the redistribution of income, and a corresponding adjustment of the level of production, as a result of stimulation of demand and a number of programmes especially designed to increase production, all on the basis of making use of the economy's non-utilized capacity"35/. As the same author points out, this would have been impossible without slowing down the rise in prices and without absorbing a considerable number of unemployed, for, otherwise, it would not have been long before the traditional methods of compensation would have shifted the effects of increased demand not to higher production, but to higher prices. Consequently, mechanisms were used to lower the average level of profit in such a way that the increased volume of profits would offset their declining level, through an increase in physical production.

The battle against inflation scored some obvious successes in 1971. The rate of increase in the general level of consumer prices fell from 29 per cent and 35 per cent in 1969 and 1970 respectively, to 22 per cent in 1971 (annual average 20.1 per cent). The wholesale price index rose by 17.2 per cent in 1971, compared with 33.7 per cent in 1970 and 39.4 per cent in 1969. But, at the same time, the nominal amount of wages and salaries was 54 per cent higher than in 1970. As a result, the share of wage-earners and salaried employees in domestic income (including employers' contributions) rose from 53.7 per cent in 1970 to 58.6 per cent in 1971. This increase was achieved at the expense of real growth of total income and not at the cost of the income of non-wage-earners which, despite everything, maintained its nominal 25 per cent growth rate, i.e. its real purchasing power.

In any event, when wage and salary indices are set against the consumer price index the purchasing power of the former is seen to be 28 per cent higher in July 1971 than in October 1970 (the end of the Frei Government). Furthermore, this increase mainly tended to benefit the lower-income groups.

Another element in the redistribution of income was the policy of absorbing the unemployed. In 1970 the average unemployment rate was 6.1 per cent, which meant that there were about 200,000 unemployed. In 1971, this figure was reduced to 4.3 per cent, which is considered "the lowest figure ever reached since surveys began".35B/ The number of unemployed fell to 141,000, the largest drop being in the manufacturing and construction industries. Under this policy, 200,000 jobs were created, thereby permitting the absorption of the natural growth of the labour force (90,000 per annum) and providing jobs for nearly 100,000 persons who were previously unemployed.

The success of the Chilean Government's short-term plans so far are no doubt attributable to the curbing of inflation, which was reduced from 29.3 per cent in 1969 and 34.9 per cent in 1970, to 22.1 per cent in 1971, and to the mobilization and re-activation programmes implemented, for the most part in the housing and public works sectors. In the past year, 109,000 dwellings were commissioned (as against 25,000 in 1970). Together with public works, housing absorbed a high percentage of unemployed. The housing sector, moreover, was the one with the most unemployed: 19.4 per cent of its labour force in September 1970.

4.4 The result of these reactivation programmes has already been evaluated. The gross domestic product rose by at least 8.5 per cent, considerably more than was originally forecast. Manufacturing (which accounts for a third of the national product) increased by between 12 and 14 per cent in 1971. In the farming sector, despite an acceleration of the process of land reform, production increased by 6 per cent (agriculture 10 per cent and livestock raising 2 per cent). Consumption of households rose by nearly 13 per cent, consumption of durable goods, in sectors with under-utilized capacity, by 12 per cent, and that of other industrial products by 28 per cent. Copper production also rose by 6 per cent, but this was no doubt partly as a result of bringing the new Exótica and Andina mines into operation. The construction industry expanded by 12 per cent, and a remarkable expansion was also achieved in education. Primary schools registered a 5.1 per cent increase in attendance, classical intermediate schools 21.1 per cent, vocational schools 37.1 per cent, and universities 28 per cent. Furthermore, in the first four months of 1971, the infant mortality rate fell by 21.3 per cent compared with the 1968-70 average for the same four months.

Industrial production rose by 12.1 per cent, industries producing goods for mass consumption recording an even greater increase. The rubber, chemical, coal by-products and petroleum industries recorded a growth of 23 per cent, and such industries as wood, furniture, paper and printing 20 per cent. The output of industries producing essential goods increased by 9.5 per cent. The industries having the most non-utilized installed capacity achieved the highest growth rates. Copper smelting and iron and steel production recorded an 8 per cent increase over 1970 - an absolute record in the latter case. But the general falling off of investment (8 per cent down on 1970, because the considerable increase in public investment was not sufficient to offset the reduction in private investment) affected such industries as the engineering and metalurgical industries, which achieved a growth rate of only 5.1 per cent.

4.5. While significant and even surprising, these figures do not give us all the relevant facts. We may naturally wonder to what extent direct management of the economy and a successful very short-term financial policy are likely to result in a genuine transformation of Chilean society and, especially, the realization of the declared objective: a socialist transformation of Chilean society. In other words, in what way do these changes, which are quite drastic as far as their immediate scale is concerned, nonetheless differ ideologically from any other past experience?

In saying this, our thoughts turn automatically to what happened in the first phase of the Christian Democratic administration. It has frequently been noted

by different commentators that the policy of short-term reactivation pursued by the Unidad Popular coalition resembles in important respects the economic policy pursued by Frei in 1965 and 1966. Then too, measures to curb inflation were combined with a stimulation of demand, starting with changes in certain parameters such as income redistribution, through which the economy was given impetus. Were that all that was being done, then one might say that the present administration is doing on a grand scale precisely what Frei did in a hesitant manner and soon on a diminutive scale. Income redistribution is on a much larger scale today, but some redistribution of wealth also occurred at certain stages during the Frei administration. In education, health and housing also, it is evident that what has been done has been on a much vaster scale than the nonetheless significant action taken earlier. But differences exist which militate against this tendency to see easy analogies, which are in fact superficial.

This is basically because, as was pointed out earlier, the reforms carried out by Frei involved a change in the way of managing the economy and not in its structure; in other words, because the reforms acted on the economy as it was. 36/ As in politics what counts is which class is in power, in the economic sphere what matters is in whose hands the surplus ends up. With Frei, income redistribution was a varying phenomenon, because, although it produced a greater demand and hence increased production, the realities of the Chilean economy came into play at once: this upward trend produced a surplus which was inevitably seized by the forces in control of the structure, the monopolist sectors. The equivocal operation of the economic mechanism therefore led to a re-acceleration of the inflationary process, to a halt in the rate of economic growth, and, as was inevitable, to a new redistribution of income in a different direction, this time in favour of capital, in other words a regressive redistribution.

The general conclusion to be drawn from this is that, if there is no change in the key elements of the structure, no matter what functional changes are made they are bound to be of minor importance and peripheric; there will be a more violent return to the status quo. It is the changes in the economic structure which would appear to constitute the qualitative distinguishing factor between the Unidad Popular and Christian Democratic administrations; in the opinion of the exponents of the present programme, this is what marks the difference between a reformist and a revolutionary action programme. The economist Sergio Ramos has written that "the lasting (and not merely temporary) success of a reformist policy properly involves a negation of its own character, its transformation into a revolutionary policy which aims to alter the system's very structure and not merely to adapt it superficially." 37/

4.6. What are these structural changes? They involve, primarily, the establishment of State control over the key areas of the economy and agrarian reform, and the implementation of such an action programme.

For 1971, the structural changes were defined as follows:

"(a) complete State ownership of private banking; (b) nationalization of the large mining enterprises; (c) nationalization of some large monopolies in the fields of production and distribution; (d) decisive progress in agrarian reform and (e) extension of State control of foreign trade." 38/

As far as the financial system is concerned, the State in fact gained control of 90 per cent of the total volume of transactions in this sector. It did so by acquiring a majority share-holding in 17 banks and by intervention in the case of five others. All the foreign banks, with the exception of the Bank of Brazil, whose presence in Chile is guaranteed by international agreements, were incorporated in the socialized sector.

The Unidad Popular programme stated that "in 1967, of the 30,500 industries (including the handicrafts industry) some 150 only had a monopolistic control of all the markets". It was therefore considered that it would suffice if 100 or 150 monopolist enterprises (a figure which was subsequently reduced to 91) were transferred to the socialized production sector for the State sector of the economy to be able to generate directly about 50 per cent of the gross domestic product. Table 2 shows the enterprises which were taken over by the State by the various means referred to. The largest textile, cement and fisheries enterprises, the largest monopoly in the beverages and rubber industries, as well as the Compañía Acero del Pacífico are among the most important. With the exception of the action taken in Cuba, there has never been such an extensive programme of nationalizations, state ownership and state intervention as in present-day Chile.

As far as nationalizations are concerned, that of copper was undoubtedly the most important and included all the foreign copper-mining enterprises. The State has complete control of the production of nitrates and of iodine and 100 per cent of coal production (nationalization of the Compañía Lota-Schwager). With the latter, the entire energy sector (petroleum and its derivatives, electricity and coal) is now in the hands of the State. Similarly, with the taking over by the State of the Compañía de Acero del Pacífico and the nationalization of the Bethlehem Chile Iron Mines, and the transformation of the Santa Fé and Santa Bárbara companies into State enterprises, virtually all iron production is now in the hands of the State.

In the field of distribution, State-owned transport enterprises such as DINAC (Distribución Nacional), which will be the focal point of the system, ENAVI (Empesa Nacional Aircola) and ENADI (liquid gas) were set up. Various private companies were incorporated in the last-named enterprise, with the result that the State now controls 50 per cent of the distribution of liquid gas.

In other sectors, such as communications, a further extension of State ownership occurred, through intervention by the Compañía de Teléfonos de Chile, a very large enterprise. The extension of the area of State ownership is reflected also in the field of foreign trade by the fact that the State controls more than 80 per cent of exports and more than 50 per cent of imports.

Lastly, in execution of the programme of agrarian reform, 1,328 rural properties covering an area of 2,400,000 hectares were expropriated in 1971. Up to and including April 1972, Dr. Allende's Government had expropriated 2,713 rural properties covering an area of approximately 4,100,000 hectares. These figures may be compared with those of Eduardo Frei's Government, which appropriated 1,408 properties and 3,500,000 hectares during the whole of its period of office (six years).

4.7. As a result of the success of both the short-term policy and of the structural changes, which are undoubtedly of vital importance for the creation of a genuine economic planning structure, the implementation of the current economic development programme and the consolidation of the political power which must assume responsibility for both, a number of general results are being obtained.

Firstly, it is clear that a greater capacity to control the economy has been achieved, or, in other words, that the material sphere within which a central economic will can determine the activities of the economic agents has been extended. If planning consists in actually determining economic conditions and establishing an orderly interrelationship between economic phenomena and not only in inducing them in an indicative manner, it is obvious that a coherent basis is being created for the existence of planning control.

It has also been stated that the entire productive system has been successfully set in motion, in other words that not only the setting of economic goals but economic activity itself must be considered an objective of economic policy, one of the characteristics of industrial under-development being the incomplete utilization of its capacity, its partial operation only. It is this dynamism which, if it can be maintained, will permit fulfilment of the forecast that a growth rate of between 7 and 8 per cent will be achieved again in 1972, provided the levels of the first half-year are maintained.

It is claimed that the basis for the solution of other problems, including the creation of new marketing and distribution systems, has thus been established, so that a new pattern of consumption can be created to balance the private consumption/collective consumption relationship, while attacking the sociological obstacle arising from the fact that any established system (in this case, capitalism in the peripheric area) is not merely the set of mechanisms which revolve around the decision-making centres; it also includes the traditions of the consuming masses.

Lastly, it is assumed that with this combination a major political offensive, favourable to the Unidad Popular coalition, has been launched which is causing the gradual collapse of the entire former economic system, with its dramatic attempts to conceal and corner commodities and to disrupt the pricing system in order to cause inflation 39/. What is referred to here is the conversion of economic policy into an immediate political tactic aimed at securing the political support and participation of the masses. This is based on the conviction that the new system already exists and that it must therefore, sooner or later, make the masses aware of itself as a phenomenon, and, although with an awareness that is developing in inverse ratio to reality, that the centres of power of the "old economic system" are already past their zenith.

This is undoubtedly the successful aspect of a policy which somehow showed its capacity to exist, first as a more or less scientific plan and later as a reality, even after possessing political power without continuity and being beset by a powerful opposing ideology. It is now necessary to draw attention to what will be or already are the difficulties likely to be encountered.

As was foreseeable, for instance, income redistribution on the scale on which it was introduced, causes maladjustments and disparities between the new increased demand and the capacity rapidly to make the available supply match that demand. There are not always sufficient goods available to match the increased purchasing power of large sectors of society. As a result, the phenomenon of inadequacy of supplies occurs, in other words a disequilibrium between an increasing demand and a less flexible supply. It is easy to explain in statistical terms the origin of this discordance or maladjustment, but the political consequences of the inadequacy of supplies can be as important - but in the opposite way - as the initial income redistribution, if the masses are not participating in the formulation of the economic

policy, in other words, in the planning of collective consumption. In order to ensure their participation, the JAPs (Juntas de Abastecimiento y Precios) (Supply and Price Boards) are being organized. This project, however, is only in its initial stages.

Secondly, there is a build-up of financial pressures mainly as a consequence of increased government expenditure, the obvious result of the policy of reactivating the economy, including the establishment of the sector of State-ownership. This development is made more serious by the drop in the level of private investment in an understandable reaction of a sector which feels that its interests are harmed by the present policy, while public investment has not increased sufficiently to make good this decrease.

Lastly, there is what has been described as the "dissociation between subjective perception and objective results". 40/ The effective use of ideological methods by the employers' sector tends to obscure the results of the Government's economic policy and, in many cases, the monopolies and the small businessmen and industrialists combine forces. This is undoubtedly a result of the survival of the ideological hegemony of the Right at the superstructure level. It is in forming cultural and consumption patterns and in developing political creeds that the former centres of power find their greatest strength and place their greatest hopes. It is undoubtedly in the ideological super-structure that the aim of making economic policy a living watchword of the masses is weakest. Furthermore, in view of the fact that the Unidad Popular programme is not, in principle, unfavourable to small industrialists and businessmen or even to foreign capital generally, it will be seen what a drawback this situation is for the Unidad Popular coalition.

Another point to be borne in mind is that Dr. Allende's Government will certainly enjoy less room for manoeuvre in other aspects of its policy from 1972 onwards. At the beginning of 1971 it was able to make use of considerable idle capacity in industry. As the economic leaders warned, however, the situation now is different. There is still some installed capacity which is not fully employed, but in several sectors that margin has disappeared.

The key limiting factor, however, is Chile's indebtedness. The servicing of the country's foreign debts would have required the allocation for that purpose of 40 per cent of its export earnings. As a result of complex negotiations, however, it has been possible to mitigate considerably the effects of this inherited situation, but there is no doubt that this is a problem which will have a continuing adverse effect on the future of the economic plans. It certainly is a key limitation.

4.8. If we examine the tools available for carrying out this policy so far, we may recognize the difficulty of carrying out planning when only one facet of State power is available, when, at the same time, the economic awareness of the masses (which, in the last analysis, is their political awareness) has not fully developed and when there are strong sectors of resistance, the holders of the "old power" which, although their economic force is on the wane, still predominate in the development of social ideology.

It is instructive, for example, to list the ways in which the already extensive sector known as the area of public ownership has been established. According to the explanation given by the Minister for Economic Affairs, Mr. Vuskovič, these are: (1) the application of existing laws, such as the agrarian reforms based on a law

dating from the Frei period, which was promulgated with the support of the Marxist sectors; (2) legal and constitutional reforms, as in the case of copper, the nationalization of which would have proved difficult without a prior change in the Constitution, which was supported by the opposition; (3) through direct negotiations with the enterprises concerned and (4) as a result of the abandonment of firms by their owners.

This raises in fact, the question of the role of the law in the economic development process. The view of the Government of Chile on these matters needs no interpretation, since it has been openly expressed on many occasions. The Government is a predominantly Marxist power block in which the concept of economic development is unhesitatingly identified with the building of socialism in Chile and which believes that, in its present phase at any rate, this is a process which can be carried out within the existing law. In view of the fact that such a change can take place either through violence or through a peaceful transition, within the pre-existing law or outside it, the choice that has been made is clear. It is to use the law, or to enlarge it and adapt it, but not to destroy it. Although one cannot do much more than theorize, it is interesting to see in what way the people's parties and organizations which make up the Unidad Popular block actually support in Chile a law which was not created by them nor by the classes they represent.

Generally speaking, and leaving aside the Chilean case for the moment, there are at least four possible situations:

(a) the legal rules and the economic development plan emanate from the same political power source. In this case, one aspect serves the other and there is no conflict.

(b) although emanating from different political power sources, whether successive in time or contemporary (in the case of shared power) they are nevertheless mutually acceptable. This is an eclectic plan in which both sides must make concessions.

(c) the law or the legal rules hold up the economic development plan because they predate the latter. On this hypothesis, that one which most favours the development of the productive forces and its expression in the political superstructure must prevail, but the dispute is a factual one.

(d) the legal system, although basically in conflict with the economic development plan, nevertheless permits it to advance up to the point at which the contradiction becomes irrelevant and the legal rule becomes a dead letter (withers) in the light of the new economic reality.

In applying these hypotheses to the Chilean case, we must remember that the concept of the economic development plan is identified with the building of socialism. It must also be realized that, although the first hypothesis, that of an identical source for both the law and the historical plan, should be the standard one because in it the substantive definition (political power) precedes the adjectival one (the plan to which it is applied), the fact is that this situation has simply not occurred in Chile. Hypothesis (c) corresponds to a line of thinking which, although it envisages disaster, cannot be simply disregarded. The present eclectic co-existence of contradictory powers is an anomalous endeavour which cannot

continue for very long without taking a specific toll. Hypothesis (b) is presumably that of the more conservative sectors within the Unidad Popular alliance, which takes something of a Bonapartist view of power building. Lastly, possibility (d) in which the magnitude of the popular movement and the economic defeat of the right wing render a violent solution of the power issue unnecessary or secondary, is the one which has probably gained the widest acceptance within the Unidad Popular alliance.

In any case, social movements in Chile have never regarded respect for the law as a mere fetish of the right. On the contrary, it is a strongly rooted historical fact. Respect for the law is perhaps the most powerful of the Chilean political traditions and it has certainly not been imposed from above by the existing power machine, but is a genuine political habit at the level of the masses. This distinction is not unimportant. The masses do not regard respect for the law as a practice of their foes, nor do they feel that they are enemies of the legal system. On the contrary, to a considerable extent, they take the law to be a fact of life and define their political practice in relation to it. From the point of view of creating a truly proletarian policy (in the Marxist sense) this undoubtedly indicates a defective development and a degree of alienation since, conventionally, the workers should develop their power either with the legal system or without it, or even in opposition to it, i.e. they should take no notice of it except as a tactical obstacle. But an elaborate system of law which (in political terms) does not exclude any significant section of the population must have had its effect on the way of life of the masses. Hence it will be evident that at least two lines of thinking must be developing within the power structure. On the one hand, there are those who think that the Chilean development plan should be put into effect within the law and not outside it, either now or at a later date, and that the law will automatically develop along appropriate lines in view of the extent of the Lefts power. On the other hand, there are those who think that the law should not be strained until, with the development of a new awareness this is acknowledged to be a deficiency at present the masses spontaneously conclude that the time has come to oppose the law or, in other words, until the movement of the masses, still generated within the law, assumes such scope and strength that it is ready to sacrifice that powerful habit to new and more pressing concerns.

The law is thus a burden of the past which weighs heavily upon the present State power in Chile and which could become the main obstacle to flexible exercise of that power. However, all experience being necessarily founded upon previous material factors, the local heritage offers considerable advantages for the Chilean plans. For example, Chile does not need to establish or consolidate its national unity. There is no "national question" in this country: it is a single nation, which is ethnically, culturally and territorially homogeneous, has a single language and no significant exclusions from the political process. Even when reference is made to an "exclusive economy", for instance, the fact that the whole population has long been incorporated in a market economy should not be overlooked. Moreover, it is country which has virtually completed its infrastructure in communications, in the chief basic industries and, to an increasing extent, in health and education. On the whole, the indices do not reveal any major food shortages, life expectancy is very little inferior to that of the developed countries, the natural population growth is well below the Latin American average and is actually declining, and the country is capable of eliminating illiteracy within a very short time. Chile has also abundant natural resources of almost all kinds except those connected with stock-farming and tropical agriculture. Regular censuses are carried out and, as a result of a sustained effort, statistical

information of good quality is available. It has an efficient body of professional and technical cadres and it cannot be said that corruption in the exercise of power is at all widespread. It has proved virtually impossible to accuse the Allende Government of any financial scandal, despite the existence of a highly suspicious opposition. The Chilean State apparatus obviously has a certain rigidity and there is some lack of communication between its sectors, but there is no compartmentation based on the isolation of regions or classes resisting the central power. Moreover, as has already been mentioned, the central power is not a chaotic one; every Government has at the very least expressed definite, albeit empirical, ideas on all subjects.

It should be remembered also that Chile did not need to institute industrialization of the import substitution type. In other words, although the Chilean form of industrialization requires reorganization, there is no need for the actual institutions of an industrialization process. Consequently, the rural population is steadily declining and the country is already a basically urban one. The same applies as regards nationalization. Why was it possible for such a cycle of changes to be carried out without a greater disturbance of the country's social or economic life? Because the means of production were already fairly centralized in Chile, because of the monopolistic system itself, although the surpluses they generated were still appropriated privately. Thus the Chilean State has no need to centralize the economy, but can take advantage of a pre-existing centralization.

However, the inherited advantages are, as was mentioned earlier, mixed with limitations imposed by the past. The traditional co-existence of the acknowledged authority of the State and democratic freedoms creates a degree of social discipline which requires no effort and which has largely made possible the peaceful character of the process so far. The fact that the masses remain as it were spectators to some extent seems also to raise the question of whether what is called social discipline may not also be a form of inertia in the masses. The point must again be made that respect for the law leads large sectors to identify politics with elections, in other words, their political habits may be making it difficult for the masses to take part in politics in general and in the development of economic policy in particular.

That the leaders are conscious of this deficiency is shown by the thesis which has been put forward that economic policy will broaden the political base and give it greater intensity. In fact, however, this belief that an increase in consumption and in purchasing power will generate political support is a debatable one. Increased consumption does not necessarily generate political awareness. On the contrary, it may be argued that an awareness of shortages is more readily developed - and more likely to be developed - than an awareness of achievements, of consumption demands met and of needs satisfied. Since one form of consumption more or less automatically generates another, the economic greed of a society which accepts consumption statistics in the abstract as a sign of progress can lead to dangerous errors. Unless the increase in consumption brings with it further effective contributions to the development of the class consciousness, i.e. contribution's that have a considerable impact on the ideological struggle, it may bring the sectors which increase their consumption close to the myths and values which shape the alienation characteristic of the higher strata. Furthermore, it is well known that increases in consumption have favoured the lower and intermediate sectors to an approximately equal extent. Since the intermediate sector is the one in which the Unidad Popular coalition has sought to increase its support throughout its whole

programme, this was an obvious policy. Recent electoral developments have revealed no such increase in support, however, and it would appear therefore that the impact of the ideological apparatus of the Right is still more effective in confirming the alienation of those sectors than is consumption as a "creator of awareness".

In spite of the ideologically negative aspect of consumption per se (the fact that it does not automatically generate political awareness) these changes in the functioning of the economy have, nevertheless, more extensive structural effects than is generally realized. If a marked redistribution of income becomes a systematic, constant, and increasingly reiterated fact, then it is no longer a functional change but a class attack, a dismissal of what preceded; no longer a quantitative change, it becomes the expression of a basic transformation.

4.9. We have thus roughly defined the point of conflict with respect to the Chilean development plan (the building of socialism in Chile). We have seen that this plan exists at both the level of economic functioning and the level of structural change. Since, however, the best-known bourgeois plan of the past (that of Frei) was also at first concerned with the functioning of the economy and gradually faced up to the necessity of some structural changes, (e.g. agrarian reform), it will be seen that the tasks undertaken do not give the essence of the system. This is true both of economic development proper and of the whole question of political power in Chile: the historical purpose (socialism and socialist planning) has been identified but there has not been a corresponding identification of those who are to carry out those tasks. Theoretically, a régime whose objective was national capitalism, if it were not immobilized by the class prejudices which nullified the Frei system, would also have had to tackle the functioning of the economy and make structural changes in much the same way as the Unidad Popular Government has done. Even the structural changes can mean, in fact, no more than that one régime is more progressive and clear-sighted than the other. What really distinguishes them, however, is their different class content. The classes which are now in power are undoubtedly new ones. That is a fact although it should be realized that even worker participation in the State apparatus in general does not necessarily make a proletarian State.

It is perhaps worth while to review the facts. A front of parties, controlled by those which traditionally represent the Chilean working class, has succeeded in gaining power with less than 40 per cent of the votes. This, of course, in a State with a liberal structure, refers to the executive power only, since the other powers, the judicial and the legislative, have their own rules of the game.

Consequently, it has been stated that there is a "duality of power" within the Chilean State or that, through its parties, the working class has conquered one portion of the political power. As is well known, the expression "dual power" was first used by Lenin in 1917 with reference to the existence of two States in Russia: that of Lvov and that of the Petrograd Soviet. It is quite evident, however, that Lenin was referring to that situation as an anomaly in State formation, a circumstance peculiar to the Russian Revolution and, at bottom, a de facto and essentially temporary situation. There is no co-existence or co-habitation of the two wings of a dual power, only a parallel, incompatible and anomalous existence. These are obviously not the circumstances which prevail in Chile. Although the presence of the Marxist parties in the executive branch of political power is

something of an anomaly or abnormality, it is not a de facto situation but results from institutional practice. Participation in a State, a continuous occurrence at all levels wherever bourgeois democracy is genuinely functioning, cannot be mistaken for a dual-power situation. In the first case, the essential form of the State does not change and it is not unknown for one class to be in a position to wield a political power which ultimately belongs to another. In a dual-power situation, however, power is antagonistically split in such a way that the existence of one side of the dual power is incompatible with that of the other. The contradictions within State power in Chile have certainly never reached an antagonistic level. In the case of dual power, therefore, the situation is basically a temporary and short-lived one. If the power structure in Chile were made up in this way, the country would be on the brink of civil war, and this does not apper to be the case.

Although less ambitious and perhaps for that reason more provisional, the description of the Chilean process as a transitional situation in which the presence of the proletariat in the political power structure is combined with the tasks of dismantling the old politico-economic system and beginning the construction of a new one, "before the final revolutionary break" appears to be more in keeping with the actual situation. It is thus a case of "a special combination of circumstances which make it possible for power to pass from one class to another. In other words, the possibility of such a change has become a reality and not the change itself, which may or may not take place" 40.B/. The idea is that the conditions are being established for the future creation (whether or not through a phase of dual power) of a power that is more definite in its class character and ideological content. This is the reason for reference to a transitional situation.

Any reference to a political power which is not yet consolidated or defined in a stable position, poses the implicit question as to the type of economic policy which is capable of attaining such a régime. The construction of a genuine economic planning process obviously requires a prior definition of the planning power, more especially once the time comes when eclectic tasks have been exhausted. It is suggested here, however, that once the historical purpose has been adequately defined, practical use of the instrumental elements can combine with the impulse provided by a clearly defined goal to improve the very existence of the power element, which is also the planning entity.

Why, however, attach so much importance to the creation of an efficient planning system? The reason is the scientific fact that it is impossible to build socialism spontaneously in the midst of capitalism. If formal planning is to become real planning and not just the periodic issue of a set of indicators and technical approximations, the primary requirement is a defined political power which must then extend to the whole of the society in question or to the major part of it. Since the definition of power in the Marxist sense (which is the sense now being used in Chile) consists in its class characterization and in the class ideology it adopts, the new class hegemony must presumably express itself through the class parties, since the proletariat is not capable of developing its own ideological awareness in isolation. It is also recognized, however, that, while capitalism developed its productive forces spontaneously within feudal society, the transition from capitalism to socialism, on the other hand, can only be a conscious process. Hence the role of the political parties, of economic planning and of the mobilization of the masses.

As for planning, this can be binding only if the strategic sectors are in the hands of the planning apparatus itself. On the other hand, even though this requirement is met and planning has already a recognized protagonist role, the concurrence in it of the masses is necessary in which case planning becomes the exercise of the power of a vastly modernized State.

To what extent are these conditions being fulfilled in Chile? To a considerable extent, at least insofar as the State's economic scope or real compass has undoubtedly expanded. Conditions are being established for socialist planning, however, and this means that socialist planning as such still does not exist, that it is still a question of more or less experimental inducements, given by a State apparatus which is still in the process of formation and transformation. In such a situation, it is difficult for the planners to be successful unless they are also members of the actual political leadership which is building the new real power.

4.10. The present Chilean experiment could have a specific development and a derived development. The first, which is based on the limitation of the experiment to its own forecasts, consists in the fact that, within a formation of pluralist power (pluri-class and pluri-party), it is already the proletariat which exerts the major influence. It is a major influence, indeed, but within an uncertain power structure since several centres of economic decision-making and ideology-building are still in the hands of the monopolistic and oligarchic sectors which may have simply withdrawn from politics. This conflict of power within a State which is being rejected or controverted by one of its parts can have either a violent or a non-violent solution 41/. In any case, it is assumed that short-term policy should be to broaden the political base of support for the régime and convert it into a movement of such magnitude as to make an armed confrontation unnecessary. In this development, the "transitional situation" should gradually become a more and more frankly socialist régime.

In considering the hypotheses, it is also necessary to consider what happens when the various economic tasks, although carried out separately, are nevertheless thwarted as regards the objective which should unite them. If this possibility is combined with the assumption that the changes made are reversible, the reply must be a negative one. There can be no doubt that neither the great landowners nor monopolistic capital will revive in Chile in their old form, whatever may later transpire. If, however, the proletarian sectors were to lose even their present position in the power structure of the State, new forms of monopoly or much more advanced forms of capitalist enterprise which might not necessarily be monopolistic could emerge.

Theoretically speaking, this is not impossible nor is it impossible that at least some sectors are thinking, not of socialism, but of the building of a sort of independent capitalism to replace the dependent capitalist pattern which is being dismantled. With respect to these prospects, the problem is whether it is possible in an under-developed country for a non-monopolistic capitalism, i.e. a capitalism which is neither externally dependent nor internally concentrated, to exist.

Secondly, even if the monopolistic forms cannot revive within the economic structure left by the Unidad Popular alliance, it is obviously possible for an insidious and undeclared form of capitalism to be reborn through an electoral loss of power by the working class. Both of these, however, are mere suppositions.

The modernization of Chile, in its State apparatus and in the structure and functioning of its economy, in the re-organization of the rôles of the social classes, in short, in all aspects of social life, is already a process that is consistent in itself, whatever its fulfilled historical content may be. What has been achieved to date has nevertheless gone further than any past attempts at economic and social development.

Explanatory notes

1/ Osvaldo Sunkel, "Cambios estructurales, estrategias de desarrollo y planificación en Chile (1938-1969)". [Structural changes, development strategies and planning in Chile (1938-1969)]. In Cuadernos de la Realidad Nacional, no.4, June 1970, Santiago.

2/ Aguirre Cerda was President from 1938 to 1940, when he died, the presidency then being assumed by José Antonio Rios (1940-1945).

3/ André Gunter Frank, "La Política económica en Chile. (Del Frente Popular a la Unidad Popular)", [Economic policy in Chile. (From the Popular Front to Popular Unity)"], Punto Final, Documents series, 14 March 1972, Santiago.

4/ On this policy there is a useful study by Oscar Garretón "Concentración monopólica en Chile, participación del Estado y de los trabajadores en la gestión económica", [Monopolistic concentration in Chile, participation by the State and the workers in economic management"], in Cuaderos de la Realidad Nacional, no.7, March 1971, Santiago.

5/ CEDEM, "Elementos para un análisis de la intervención del Estado en la economía chilena" [Elements for an analysis of State intervention in the Chilean economy], Santiago, Centro de Estudios Estadístico-Matemáticos (Cedem and Ilpes, 1968).

6/ A right-wing government which lasted from 1946 to 1952. It was elected, however, with the help of Communist votes.

7/ Markos Mamalakis, "Growth and Structure of the Chilean Economy". Milwaukee, Wisconsin, University of Wisconsin, Center for Latin American Studies, 1969 (mimeo.).

7B./ Institute of Economics, University of Chile, La economía de Chile en el período 1950-63, [The Chilean economy in the period 1950-1963], 2 vol., 1963.

8/ Because investment conditions thus became extremely favourable while, at the same time, the State acquired its share in the Gran Minería at a high cost.

9/ In this connexion see the useful monograph La nacionalización del cobre, [The nationalization of copper] presented by Jaime Esteves in the course "The economics of the transition to socialism", Faculty of Economic Sciences, University of Chile, 1971.

10/ See Lidia Rodriguez, La nacionalización del salitre, [The nationalization of nitrates], a monograph presented in the course mentioned in the previous note, 1971.

11/ Sergio Ramos, op.cit.

12/ Aranda and Martinez, La industria y la agricultura en el desarrollo económico chileno, [Industry and agriculture in Chilean economic development] Santiago, Institute of Economics of the University of Chile, 1970.

13/ Problems also mentioned in Aranda and Martínez and in Ramos, op.cit.

14/ Gabriel Gasić, Concentración, entrelazamiento y desnacionalización en la industria manufacturera, [Concentration, interlocking and denationalization in the manufacturing industry], Faculty of Economic Science, University of Chile, Santiago, 1971 (quoted by Ramos).

15/ O. Garretón and J. Cisternas, Algunas características del proceso de toma de decisiones en la gran empresa: la dinámica de la concentración, [Some characteristics of the decision-making process in large enterprises: the dynamics of concentration] Technical Cooperation Service Agreement, ODEPLAN, Santiago, March 1970 (mimeo.).

16/ Calculation by Sergio Ramos. See "Chile, Una economía de transición? [Chile, a transitional economy?] op.cit.

17/ In Ramos, op.cit.

18/ In Ramos, op.cit.

19/ ODEPLAN. La inversión pública en el período 1961-70 [Public investment in the period 1961-70], June 1971, Santiago.

20/ Aranda and Martínez, op.cit.

21/ Pedro Vusković, Informe inicial del Comité Coordinador de la Reunión de los equipos económicos de la comisión programa de la Unidad Popular, [Initial Report of the Co-ordinating Committee of the Meeting of the economic teams of the Commission for the Unidad Popular Programme] Santiago, August 1970 (mimeo.).

22/ CORFO. Efectos de la estructura del consumo sobre el crecimiento del sector industrial. [Influence of the pattern of consumption on the growth of the industrial sector], Santiago, 1970 (mimeo.).

23/ ODEPLAN, Antecedentes sobre el desarrollo chileno 1960-1970. [A Record of Chilean Development 1960-1970].

24/ ODEPLAN, Antecedentes sobre el desarrollo chileno 1960-1970. [A Record of Chilean Development 1960-1970].

25/ See Note 21.

26/ In Ramos, op.cit.

27/ Aranda and Martínez, op.cit.

28/ Programa Básico de la Unidad Popular. [Basic Programme of the Unidad Popular], 1970.

29/ Pedro Vuskovié, Statement at the fourteenth session of ECLA, Santiago, Chile, 17 April to 8 May 1971. Information Document No.9, page 6.

30/ ODEPLAN, Plan nual 1971 [Annual plan for 1971].

31/ " , Resumen del Plan de Economía Nacional 1971-76. [Summary of the National Economic Plan 1971-76].

32/ ODEPLAN, Plan Anual 1971 [Annual plan for 1971]

33/ ODEPLAN, Antecedentes sobre el desarrollo chileno 1960-1970 [A Record of Chilean Development 1960-1970].

34/ Statement by the Minister for Economic Affairs, Pedro Vuskovié to the Seminar on the Chilean Way organized by ODEPLAN and the Institute of Development Studies, Sussex.

35/ Sergio Ramos, Chile, Una economía de transición?, [Chile, A transitional economy?], Centre for Socio-Economic Studies, Faculty of Economic Science, University of Chile, 1972

34B./Statement by Vuskovié, etc. See Note 34.

36/ This is, however, a comparison which is quite frequently made. For example, Sergio Ramos and André Gunter Frank have worked on it.

37/ Chile, Una economía de transición? [Chile, A transitional economy?], see note 35.

38/ Américo Zorilla. Statement on the Government's Economic Policy and on the State of the Treasury to the Joint Budgetary Commission of the National Congress, 27 November 1970. Ministry of Finance, Budget Division, Brochure No.118, Santiago.

39/ The underlined portions are reproduced from the statement by Vuskovié mentioned in Note 34.

40/ Ibid.

40B./Sergio Ramos, op.cit.

41/ "The form which the final break with the old system may take is for the moment also undetermined. It might be a gradually accelerating process of obtaining control of the basic means of production, accompanied by a mobilization of the people sufficiently solid and widespread to provoke - without the need for a generalized armed confrontation - substantial changes in the apparatus of the State as a whole which will destroy old institutions and create other new ones to replace them. Similarly, it is also possible to envisage another form of resolution of the duality of power through armed confrontation, localized or generalized, in various stages, moments or forms etc." Sergio Ramos, op.cit.

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MANUFACTURING INDUSTRY: ENTERPRISES UNDER STATE CONTROL, END OCTOBER, 1971

(by sectors and type of control)

1.	Food, beverages and marine products industries	
01	Cía. Pesquera Camanchaca	C
2	Promar	A
3	Cía. Pesquera Arauco S.A.	A
4	Empresa Pesquera Tarapacá S.A.	A
5	Pesqueras Unidas	A
6	Sociedad Pesquera Stelaris	C
7	Empresa Pesquera Indo	R N
8	Empresa Pesquera Eperva	R N
9	Sociedad Pesquera Guanaye	R N
10	Pesquera Coloso	R N
11	Marco Chilena	R N
12	Pesquera Iquique	A
13	Alimentos Purina de Chile S.A.	R N
14	Vinex	C
15	Interifa	R
16	Soleche	A
17	Iansa	A
18	Cocavi	R
19	Pollos King	R
20	Cecinas Loewer	C
21	Cecinas Til	C
22	Cía. Cervecerías Unidas	R
23	Agua Mineral Cachantún	R
24	Sociedad Chilena de Fertilizantes	A
2.	Wood, furniture, paper and pulp industries	
01	Sociedad Forestal Quechumalal	A
2	Celulosa Constitución S.A.	A
3	Ind. Celulosa Arauco S.A.	A
4	Forestal Arauco S.A.	A
5	Forestal Pilpilco S.A.	A
6	Soc. Forestal Lebu S.A.	A
7	Industrias Forestales S.A.	A
8	Papelera del Pacífico	A
9	Bima	A
10	Cimsa	C
11	Emasil	C
12	Impregnadora de Maderas	C
13	Martonffi y Cía.	I E
14	Easton	I N
15	Novart	I N
16	Montero	I N
17	Ramsomes Chilena	C

3. Textiles and clothing industries

01	Yarur S.A.	R
2	Tejidos Caupolicán S.A.	R
3	Hirmas S.A.	R
4	Manufacturas Sumar S.A.	R
5	Rayón Said S.A.	R
6	Rayonil	R
7	Textil Progreso	R
8	Paños Oveja Tomé	R
9	FIAP Tomé	E
10	Bellavista Tomé	E
11	Fabrilana	E
12	Lanera Austral Punta Arenas	E
13	Lanera Austral Coquimbo	R
14	Est. Castón Rudoff	N
15	SEDAMAR S.A.	C

4. Capital goods and engineering industries

01	Fábrica de maquinarias	C
2	CAP	C
3	Industria de Aceros Franklin	C
4	Socometal	C
5	Maestranza y Fundición Antof	C
6	ASMAR	A
7	FAMAE	A
8	SGM	C
9	Prodinsa	C
10	INDAC	C
11	INDESA	C
12	Aramco	C
13	Ford Motor	R
14	Indelco	R E
15	Nibsa Nibco	C
16	Morfholl	C
17	Cormecánica	A
18	Madeco	R

5. Building materials industries

01	Fábrica de Cemento El Melón	R N
2	Fábrica de Cemento Cerro Blanco	R N
3	INACESA	A
4	INAPRECO	C

6. Other industrial enterprises

01	INSA	C
2	MANESA	C
3	Petro Química Chilena	A
4	Fábrica de Acido Sulfúrico	A
5	IRT (Ex-RCA)	C
6	Elecna	A
7	Editorial Quimantú	

Notes:

A: Belonged to CORFO before 4 November 1970.

C: Acquired subsequently.

R: Requisitioned.

I: Controlled.

E: Expropriated.

R N: Requisitioned. Negotiations in progress.